



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 5, 2009

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **DISTRICT ATTORNEY'S OFFICE - BAD CHECK RESTITUTION  
PROGRAM AGREEMENT FINANCIAL/COMPLIANCE AUDIT**

In August 2003, your Board approved an agreement with American Corrective Counseling Services, Inc. (ACCS) to conduct the District Attorney's Office (DA) Bad Check Restitution Program. The Program allows bad check writers to pay restitution to victims and attend counseling classes in lieu of criminal prosecution. As part of the Program, ACCS reviews and processes complaints from bad check victims. ACCS then locates and contacts bad check writers, and collects restitution, administrative and diversion class fees from the bad check writers.

At the DA's request, we contracted with an outside Certified Public Accounting firm, Moss, Levy & Hartzheim, LLP (MLH), to verify that ACCS collected, deposited, classified, reconciled and distributed program funds for calendar year 2006 in accordance with the agreement and subsequent amendments. MLH also followed up on minor payment inaccuracies noted in the prior year's audit.

The MLH's report (attached) indicates that there were no findings for the 2006 review, and that the minor errors noted in the prior review did not reoccur.

Board of Supervisors  
March 5, 2009  
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Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MP

Attachment

c: William T Fujioka, Chief Executive Officer  
Steve Cooley, District Attorney  
Public Information Office  
Audit Committee

2006-2008 DISTRICT ATTORNEY NSF CHECK  
ENFORCEMENT SERVICES AGREEMENT  
FINANCIAL COMPLIANCE AUDIT

AMERICAN CORRECTIVE COUNSELING SERVICES, INC.

INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES

COUNTY OF LOS ANGELES  
DISTRICT ATTORNEY NSF CHECK ENFORCEMENT SERVICES AGREEMENT  
AGREED-UPON PROCEDURES

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**MOSS, LEVY & HARTZHEIM LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

Ms. Wendy L. Watanabe  
Acting Auditor-Controller  
County of Los Angeles  
500 West Temple Street, Room 525  
Los Angeles, CA 90012

We have reviewed the records of the American Corrective Counseling Services Inc., (ACCS) on a limited scope for a selected test period of the calendar year 2006. The procedures performed involved identifying, evaluating, and verifying the deposit, classification, reconciliation, and distribution of funds by ACCS were in accordance with Agreement 74574 and subsequent amendments. Such procedures were agreed to by the County of Los Angeles Department of Auditor-Controller (County) and were performed solely to assist the County in evaluating the adequacy of the ACCS' financial accounting system and compliance with certain contract requirements and applicable regulations.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We agreed to perform the following procedures and report our findings accordingly:

- I. Verify that collections are deposited to the established County sweep account on a daily basis.
- II. Verify that an ACCS corporate holding bank account is not used to deposit payments received for any length of time before depositing to the County sweep account.
- III. Verify that collections are not accepted via a debit card drawn upon on an account from which the original NSF check was generated.
- IV. Verify that individual payments are appropriately classified per agreement requirements.
- V. Verify that individual payments are distributed and paid in accordance with Agreement requirements.
- VI. Verify that ACCS prepares monthly checking account reconciliations between the County revolving fund checking account and the checking account bank statement. In addition, verify that all exceptions are cleared in a timely manner.

- VII. Verify the daily deposits and distributions for individual accounts are reflected completely and accurately in ACCS accounting records.

The findings resulting from our agreed-upon procedures are described in Exhibit A of this report.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on ACCS' compliance with County requirements and with the terms of its contracts. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County of Los Angeles, Auditor and Controller, Audits Division, Los Angeles County District Attorney's Office and is not intended to be and should not be used by anyone other than this specified party.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Beverly Hills, California  
December 12, 2008

**COUNTY OF LOS ANGELES  
NSF CHECK ENFORCEMENT SERVICES  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
EXHIBIT A**

No findings were noted during the monitoring review.

**COUNTY OF LOS ANGELES  
NSF CHECK ENFORCEMENT SERVICES  
OBSERVATIONS ON OPERATIONAL OR INTERNAL CONTROL MATTERS  
EXHIBIT B**

No Observations noted on Operational or Internal Control Matters



**COUNTY OF LOS ANGELES  
NSF CHECK ENFORCEMENT SERVICES  
SCHEDULE OF PRIOR YEAR FINDINGS  
EXHIBIT C**

2006 -1     Finding – Duplicate victim/exhibits under a case #18311171

*Condition*

During our review of case files, we noted that case #18311171 had two victims with same name, crime report date, check number, and check amount. Management concurs that the second victim/exhibit under case #18311171 was a duplicate entry. Subsequently, Management has deleted the duplicated entry.

*Questioned Cost*

N/A

*Criteria*

The contract stipulates "the Contractor shall maintain accurate and complete financial records of its activities and operations relating to this Contract in accordance with generally accepted accounting principles. The Contractor shall also maintain accurate and complete employment and other records relating to its performance of this Contract."

*Cause*

This was due to a clerical error.

*Effect*

Having duplicate and/or erroneous entries creates inaccuracies and irregularities in accounting books and records. Additionally, the application of payments from the suspects to the victims may not be applied according to the terms and the conditions of the contract agreement if duplicate entries exist.

*Recommendation*

We recommend that ACCS have controls in place to detect and correct duplicate entries to ensure proper accounting of records.

*Management's response*

Only one duplicate was found out of 750 selections. There are many checks and balances for detecting a duplicate. The most effective ones are as follows:

1. Three times per day, the 8200 Duplicate Report is generated by a designated Data Entry Dept employee. This report lists all entries with same or similar names, same check #, same check date, and same check amount.
- Once it is established that the two suspects are duplicates, the two suspects/exhibits are merged together and noted.

Then the duplicate check exhibit is opened and tagged as "ineligible-duplicate" and then closed

**COUNTY OF LOS ANGELES  
NSF CHECK ENFORCEMENT SERVICES  
SCHEDULE OF PRIOR YEAR FINDINGS  
EXHIBIT C**

2006 -1 Finding – Duplicate victim exhibits under a case #18311171 (continued)

*Management's response (continued)*

2. We also rely on the suspect to call and notify us of their duplicate notices. At which time we review the cases with the suspect and once it is determined there is a duplicate, the cases are merged and the duplicate is tagged as "ineligible-duplicate" and then closed.

*Status*

During our sample testing for the calendar year 2006, we noted no additional duplicate entry.

2006 -2 Finding – Payments were not applied according to the 70% merchant and 30% class and administration fees

*Condition*

During our review of case files, we noted that for case #166445917, the payment received was interpreted and applied differently than how the auditors interpreted the language of the contract.

The contract stipulates "partial payments are received, victims shall be allocated 70% of every payment until restitution is paid in full. The remaining 30% shall be allocated to class fees, then administrative fees, in that order. In cases where there are multiple victims, payments will be applied on a first-in, first-out basis with respect to the complaint filing date."

The suspect had seven (7) NSF checks filed under her case. The first crime report from Penske Honda Motorcars was reported on 2/9/05 for \$20,190. The second victim, Stater Bros Market, filed the crime report on 7/15/05 for \$100.70. The third victim, Office Depot, filed the crime report on 8/18/05 for \$71.18.

Three money order payments of \$500 each received and applied as follows:

	70%	30%			
	Victim Restitution	Diversion Class Fees	Admin Fees DA 50% / ACCS 50%	Payment Applied to	Admin Fees Applied to
1 <sup>st</sup> Payment of \$500.00	350	115	35	Penske Motorcars	Penske Motorcars
2 <sup>nd</sup> Payment of \$500.00	490	10	0	Penske Motorcars	
3 <sup>rd</sup> Payment of \$500.00	430	0	70	Penske Motorcars	Office Depot (\$35) & Stater Bros (\$35)
<b>Total</b>	<b>1270</b>	<b>125</b>	<b>105</b>		

The first two payments of \$500.00 each were paid on 7/22/05. The first payment was not applied as to the 70/30 rule as stipulated in the contract. The victim receives 70% of the payment and the remaining 30% of \$500 (\$150) should have been applied first in full to

COUNTY OF LOS ANGELES  
NSF CHECK ENFORCEMENT SERVICES  
SCHEDULE OF PRIOR YEAR FINDINGS  
EXHIBIT C

2006 -2     Finding – Payments were not applied according to the 70% merchant and 30% class and administration fees (continued)

*Condition (continued)*

the diversion class fees of \$125.00. The excess amount over and above the diversion class fees amounted to  $(150 - 125 = 25)$  should then be applied to the administration fees. The second payment of \$500 should have been applied in full to the victim, Honda Penske Motorcars, until victim receives full restitution. The third payment of \$500 again should have been applied to Honda Penske Motorcars since the victim's balance has not been paid in full. However, on the third payment, ACCS applied \$35 to admin fees for Office Depot and another \$35 admin fees for Stater Bros. Neither Office Depot nor Stater Bros has received any restitution. The contract stipulates that "when partial payments are received, victims shall be allocated 70% of every payment until restitution is paid in full. The remaining 30% shall be allocated to class fees, then administrative fees, in that order." Neither Office Depot nor Stater Bros has received their 70% of the allocated payment, but yet ACCS has collected the 30% of administration fees even though administration fees are the last in the payment allocation order to be paid.

*Questioned Cost*

\$70 – Administration fees for Office Depot and Stater Bros.

*Criteria*

The contract stipulates that "when partial payments are received, victims shall be allocated 70% of every payment until restitution is paid in full. The remaining 30% shall be allocated to class fees, then administrative fees, in that order."

A) "Up to 70% of the payment is applied to the Victim"

B) "The remaining portion shall be paid as follows: 30% shall be applied to class fees, then 30% to administrative fees and lastly to any rescheduling fees."

*Cause*

ACCS does not agree with our interpretation of the language in the contract. ACCS states "the contract reads and the computer interprets it the same way, is 70% to the Merchant and then 30% to fees, any and all fees."

*Effect*

ACCS may not be in compliance with the terms and conditions of the contract. In addition, if the payment allocation order changes, the victim may not receive full restitution before administrative fees are applied.

COUNTY OF LOS ANGELES  
NSF CHECK ENFORCEMENT SERVICES  
SCHEDULE OF PRIOR YEAR FINDINGS  
EXHIBIT C

2006 -2     Finding – Payments were not applied according to the 70% merchant and 30% class and administration fees (continued)

*Recommendation*

We have reviewed other cases in our samples and have found no other cases that were similar to this case. As such, we can not determine if this is an isolated case or a system calculation. We recommend that ACCS review its system parameters and if necessary, change its system to properly allocate payments in accordance with the terms and conditions of the contract.

*Management's response*

According to the contract, allocation of class fees and admin fees shall be applied to class fees, then to administrative fees and lastly to any reschedule fees. In the case selected, the 30-day class discount fee was applied last.

The LA County DA's Office offers a 30-day discount on class fees if paid within 30 days of the first official notice. To accomplish this offer within our system, ACCS, Inc. has broken out the 30-day discount to a separate fee line. Due to this re-class, the 30-day discount class fee had been placed at the end of the picking order of the fees. This has since been corrected to follow in the correct distribution order.

*Status*

During our sample testing for the calendar year 2006, no other instances of misapplied payments noted. Additionally, ACCS related that the distribution order has been corrected.

**COUNTY OF LOS ANGELES  
NSF CHECK ENFORCEMENT SERVICES  
MISCELLANEOUS INFORMATION  
EXHIBIT D**

Primary auditors:	Cathy Choi Michael Pei In Sook Han Derek Bui
On-site review start date:	03/29/08
On-site review completion date:	08/05/08
Exit conference date:	N/A
Draft report issue date:	12/05/08
Final report issue date:	12/12/08
Number of findings noted:	0
Number of observations noted:	0